

# The Federal Sector of the National Income and Product Accounts

The federal budget is not the only mechanism for gauging the effect of federal government revenues and spending on the economy. That effect is also measured in the official national income and product accounts (NIPAs) produced by the Commerce Department's Bureau of Economic Analysis. The NIPAs provide a picture of government activity in terms of production, distribution, and use of output. They recast the government's transactions into categories that affect gross domestic product, income, and other macroeconomic totals, thereby helping to trace the relationship between the federal sector and other areas of the economy.

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## Relationship Between the Budget and the NIPAs

A number of major differences distinguish the treatment of federal receipts and expenditures in the NIPAs from their treatment in the unified budget. For example, the NIPAs shift certain items from the spending to the receipt side of the ledger to reflect intrabudgetary or voluntary payments that the budget records as negative outlays. Such shifts are referred to as *netting and grossing* adjustments and do not affect the surplus or deficit (see Table D-1).

By contrast, other differences between the NIPAs and the federal budget do affect the surplus or deficit. The NIPA totals exclude government transactions that involve the transfer of existing assets and

liabilities and that therefore do not contribute to current income and production. Prominent among such *lending and financial* adjustments are those for deposit insurance outlays, cash flows for direct loans made by the government before credit reform, and sales of government assets. Other factors that separate NIPA accounting from budget accounting include *geographic adjustments* (the exclusion of Puerto Rico, the Virgin Islands, and a few other areas from national economic statistics) and *timing adjustments* (such as correcting for irregular numbers of benefit checks or paychecks in the budget because certain pay dates fall on a weekend or holiday).

In the NIPAs, the government's *contributions for employee retirement* are considered the personal income of federal workers covered by the retirement plans. In the budget, those contributions are classified as government receipts. Therefore, on a NIPA basis, outlays from the retirement funds are treated as transactions outside the government sector of the economy.

*Capital transfers*—which include grants to state and local governments for highways, transit, air transportation, and water treatment plants as well as payments of estate and gift taxes—are transactions in which one party provides something (usually cash) to another without receiving anything in return. Those transactions are linked to, or are conditional on, the acquisition or disposition of an asset. Because such transactions transfer existing assets from one party to another, they do not affect disposable income or production in the current period and are therefore not counted in the NIPAs.

**Table D-1.**  
**Relationship of the Budget to the Federal Sector of the**  
**National Income and Product Accounts (By fiscal year, in billions of dollars)**

	Actual											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Receipts</b>												
Revenues (Budget) <sup>a</sup>	2,025	2,135	2,236	2,343	2,453	2,570	2,689	2,816	2,955	3,107	3,271	3,447
Differences												
Netting and grossing												
Medicare premiums	22	24	27	30	33	37	40	43	47	51	56	61
Deposit insurance premiums	*	*	*	*	*	1	1	1	2	2	2	2
Other	5	6	3	*	-3	-4	-5	-6	-7	-9	-10	-11
Geographic adjustments	-3	-4	-4	-4	-4	-4	-4	-5	-5	-5	-5	-6
Contributions for employee retirement	-5	-4	-4	-4	-4	-4	-4	-4	-4	-4	-3	-3
Estate and gift taxes	-29	-30	-32	-34	-35	-36	-37	-39	-43	-46	-48	-52
Universal Service Fund receipts	-5	-5	-6	-8	-13	-13	-13	-13	-13	-13	-13	-14
Other	14	11	3	*	*	-1	*	*	1	2	2	2
Total Difference	-1	-2	-13	-20	-26	-24	-23	-22	-22	-22	-21	-21
Receipts (NIPAs)	2,024	2,132	2,223	2,323	2,427	2,545	2,666	2,793	2,933	3,085	3,251	3,426
<b>Expenditures</b>												
Outlays (Budget) <sup>a</sup>	1,789	1,853	1,923	1,984	2,056	2,137	2,184	2,243	2,320	2,396	2,475	2,558
Differences												
Netting and grossing												
Medicare premiums	22	24	27	30	33	37	40	43	47	51	56	61
Deposit insurance premiums	*	*	*	*	*	1	1	1	2	2	2	2
Other	5	6	3	*	-3	-4	-5	-6	-7	-9	-10	-11
Lending and financial transactions	14	17	12	19	19	11	11	12	11	11	11	12
Geographic adjustments	-10	-11	-12	-12	-13	-13	-14	-14	-15	-16	-17	-17
Timing adjustments	-8	7	3	0	0	-13	3	9	0	0	0	0
Contributions for employee retirement	44	45	47	48	50	52	54	56	58	60	63	66
Capital transfers	-35	-38	-42	-45	-46	-47	-48	-49	-49	-50	-51	-52
Treatment of investment and depreciation	-12	-12	-11	-14	-17	-20	-23	-27	-30	-33	-36	-40
Universal Service Fund payments	-4	-5	-6	-6	-12	-13	-13	-13	-13	-13	-13	-13
Other	1	-2	-3	-3	-2	-3	-3	-3	-3	-3	-3	-3
Total Difference	17	31	18	18	9	-13	3	10	1	1	2	4
Expenditures (NIPAs)	1,806	1,885	1,941	2,002	2,065	2,124	2,186	2,253	2,321	2,397	2,477	2,563

(Continued)

**Table D-1.**  
**Continued**

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	<b>Surplus</b>											
Surplus (Budget) <sup>a</sup>	236	281	313	359	397	433	505	573	635	710	796	889
Differences												
Lending and financial transactions	-14	-17	-12	-19	-19	-11	-11	-12	-11	-11	-11	-12
Geographic adjustments	7	7	8	8	9	9	9	10	10	11	11	12
Timing adjustments	8	-7	-3	0	0	13	-3	-9	0	0	0	0
Contributions for employee retirement	-48	-50	-51	-53	-54	-56	-58	-60	-62	-64	-66	-70
Capital transfers	35	38	42	45	46	47	48	49	49	50	51	52
Estate and gift taxes	-29	-30	-32	-34	-35	-36	-37	-39	-43	-46	-48	-52
Treatment of investment and depreciation	12	12	11	14	17	20	23	27	30	33	36	40
Universal Service Fund payments	-1	*	*	-2	-1	*	*	*	*	*	*	*
Other	12	13	6	3	2	2	3	3	4	4	5	5
Total Difference	-18	-34	-31	-38	-35	-12	-25	-32	-23	-22	-22	-25
Surplus (NIPAs)	218	247	282	321	362	421	480	541	612	688	774	863

SOURCE: Congressional Budget Office.

NOTE: \* = between -\$500 million and \$500 million.

a. Includes Social Security and the Postal Service.

The NIPAs and the unified budget also differ in their *treatment of investment and depreciation*. The total budget reflects all expenditures of the federal government, including investment purchases of such items as buildings and aircraft carriers. The NIPAs show the current, or operating, account of the federal government; consequently, they exclude government investment and include the government's consumption of fixed capital, or depreciation. Although government investment is included in the calculation of gross domestic product and budget outlays, it is not part of the NIPA measure of federal expenditures.

The *Universal Service Fund*, which is administered by a nonprofit entity, receives funds from all telecommunications service providers and disburses them to providers that serve high-cost areas, low-income households, libraries, schools, and rural health care providers. As a result, its receipts and payments are classified as intracorporate transfers and do not show up in the NIPAs.

## NIPA Receipts and Expenditures

The federal sector of the NIPAs generally classifies government receipts according to their source. The leading source in the 2001-2011 period is taxes and fees paid by individuals, followed by contributions (including premiums) for social insurance programs, such as Social Security, Medicare, unemployment insurance, and federal employees' retirement (see Table D-2). The remaining categories are accruals of taxes on corporate profits, including the earnings of the Federal Reserve System, and accruals of indirect business taxes (chiefly excise taxes) and nontax accruals (chiefly fees).

Government expenditures are classified according to their purpose and destination. Defense and

**Table D-2.**  
**Projections of Baseline Receipts and Expenditures Measured by the**  
**National Income and Product Accounts (By fiscal year, in billions of dollars)**

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Receipts</b>												
Personal Tax and Nontax Receipts	988	1,062	1,114	1,169	1,222	1,281	1,345	1,414	1,490	1,572	1,663	1,762
Contributions for Social Insurance	685	717	752	790	828	874	916	961	1,008	1,059	1,112	1,168
Corporate Profits Tax Accruals	245	242	243	248	260	270	281	291	306	320	337	354
Indirect Business Tax and Nontax Accruals	<u>107</u>	<u>111</u>	<u>114</u>	<u>116</u>	<u>117</u>	<u>120</u>	<u>124</u>	<u>126</u>	<u>130</u>	<u>134</u>	<u>138</u>	<u>142</u>
Total	2,024	2,132	2,223	2,323	2,427	2,545	2,666	2,793	2,933	3,085	3,251	3,426
<b>Expenditures</b>												
Purchases of Goods and Services												
Defense												
Consumption	256	269	276	286	294	303	312	320	329	339	348	358
Consumption of fixed capital	65	66	67	68	68	68	69	69	70	71	71	72
Nondefense												
Consumption	141	148	156	159	162	165	167	169	171	175	178	182
Consumption of fixed capital	<u>27</u>	<u>30</u>	<u>32</u>	<u>34</u>	<u>36</u>	<u>38</u>	<u>41</u>	<u>43</u>	<u>45</u>	<u>47</u>	<u>49</u>	<u>51</u>
Subtotal	489	513	531	547	561	575	587	601	615	631	646	663
Transfer Payments												
Domestic	759	808	858	901	951	1,004	1,060	1,121	1,184	1,255	1,332	1,413
Foreign	<u>12</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>
Subtotal	771	817	867	910	960	1,013	1,070	1,130	1,193	1,264	1,341	1,422
Grants-in-Aid to State and Local Governments	242	265	286	304	322	339	356	376	398	422	448	477
Net Interest <sup>a</sup>	261	245	220	204	184	160	135	107	75	40	1	-42
Subsidies Less Current Surplus of Government Enterprises	<u>43</u>	<u>45</u>	<u>37</u>	<u>36</u>	<u>38</u>	<u>38</u>	<u>38</u>	<u>38</u>	<u>39</u>	<u>40</u>	<u>41</u>	<u>42</u>
Total	1,806	1,885	1,941	2,002	2,065	2,124	2,186	2,253	2,321	2,397	2,477	2,563
<b>Surplus</b>												
Surplus	218	247	282	321	362	421	480	541	612	688	774	863

SOURCE: Congressional Budget Office.

a. Includes proceeds from uncommitted funds.

nondefense consumption of goods and services represents purchases made by the government for immediate use. Compensation for federal employees makes up the largest part of that consumption. Consumption of fixed capital is the use the government gets from its fixed assets.

Transfer payments are cash payments made directly to people or foreign nations. Grants-in-aid are payments that the federal government makes to state or local governments, which then use them for transfers (such as paying Medicaid benefits), consumption (such as hiring additional police officers), or investment (such as building highways).

Although both the unified budget and the NIPAs contain a category labeled "net interest," the NIPA figure is bigger. Various differences cause the two measures to diverge. The largest difference involves the treatment of interest received by the Civil Service and Military Retirement trust funds. In the unified budget, such receipts offset the payments made by the Treasury. In the NIPAs, however, those receipts have been reclassified as contributions to personal income and do not appear on the government ledger.

The NIPA category labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first—subsidies—is defined as monetary grants paid by the government to businesses, including state and local government enterprises. Subsidies are dominated by housing assistance.

The second part of the category is the current surplus of government enterprises, which are certain business-type operations of the government, such as the Postal Service. The operating costs of government enterprises are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. *Government enterprises* should not be confused with *government-sponsored enterprises* (GSEs), which are private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include Fannie Mae and the Farm Credit System. As privately owned organizations, GSEs are not included in the budget or in the federal sector of the NIPAs.